

SMALL COMPANY INCENTIVE PLAN

COST OPTION

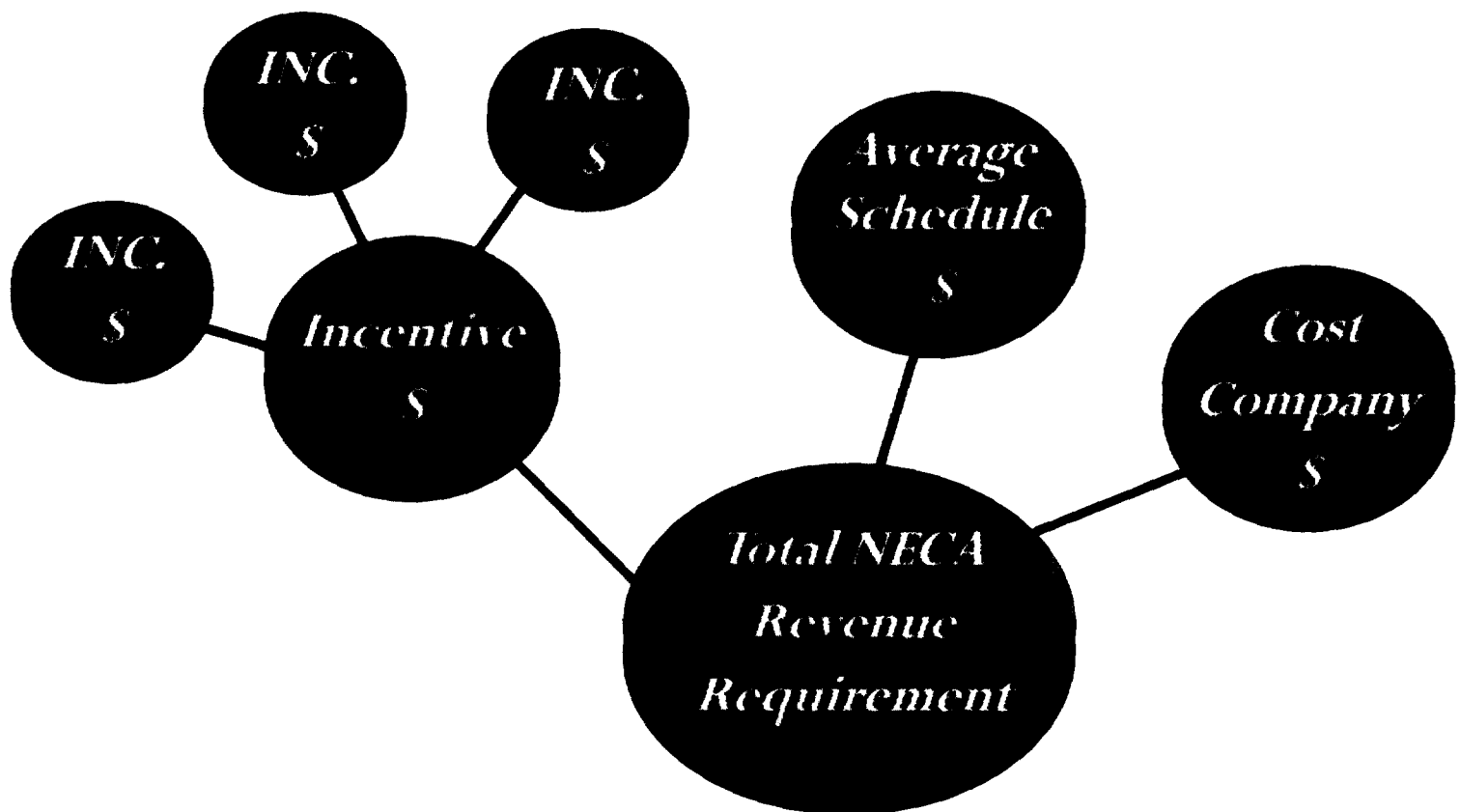
- Election at the study area level for cost companies with fewer than 50,000 lines
- ECs can elect TS only, or combined TS and CL pools. A two year commitment is required
- EC-specific settlement rates are calculated for CL, TS SW & TS SP
- ECs charge NECA's tariff rates, but recover from the pool based on their own settlement rates
- Settlement rates are reset each incentive period to earn the authorized ROR
- No earnings monitoring or exogenous rule changes

SMALL COMPANY INCENTIVE PLAN

AVERAGE SCHEDULE OPTION

- Election at the study area level for average schedule companies with fewer than 50,000 lines
- ECs can elect TS only, or combined TS and CL pools. A two year commitment is required
- Settlement rate based on most recent average schedule formulas converted to minute sensitive rates
- ECs charge NECA's tariff rates, but recover from the pool based on sett. rates derived from average schedules
- Settlement rate formulas will be adjusted every two years based on most recent average schedule formulas
- No earnings monitoring

NECA Revenue Requirement



CUSTOMER DIVIDEND EXAMPLE

Assuming 4-Year Plan Beginning 7/1/95

Settlement Rate Calculations

TS Switched

First 2-Year Period

1. Customer Dividend	.65%
2. 1994 Revenue Requirement	\$400
3. 1994 MOU	10,000
4. Rate Before Customer Dividend	\$0.040000 (Line 2 /Line 3)
5. Customer Dividend Amount	\$ 0.00026 (Line 1 X Line 4)
6. Settlement Rate 95/96	\$0.039740 (Line 4 - Line 5)
7. Customer Dividend Amount	\$ 0.000258 (Line 1 X Line 6)
8. Settlement Rate 96/97	\$0.039482 (Line 6 - Line 7)

Second 2-Year Period

9. 7/95 Through 6/97 Rev. Req.	\$ 940
10. 7/95 Through 6/97 MOU	24,000
11. Rate Before Customer Dividend	\$0.039167 (Line 9 /Line 10)
12. Customer Dividend Amount	\$0.000255 (Line 1XLine 11)
13. Settlement Rate 97/98	\$0.038912 (Line 11-Line 12)

SUMMARY

INCENTIVES CAN WORK WITHIN THE POOL

- **An incentive company's earnings come from two sources**
 - **incentive company operations**
 - **total pool earnings**
- **Earnings from company operations increase when the incentive company lowers its costs per unit of demand below the preset settlement rate. This relationship is unaffected by overall pool earnings.**
- **Settlement rate adjustments to reflect realized pool earnings is the method for all pool members sharing in the risk and rewards from pooling.**

**INCENTIVE COMPANY INPUT FORM
CUSTOMER DIVIDEND INCENTIVE COMPANY**

ENTERED: MMM, YYYY
APPLIES TO: MMM, YYYY
DATA TYPE: _____
STATUS: _____

REG: _____
CC: _____
CO: _____
SA: _____
CSLT: _____

----- COMMON LINE -----

AMOUNT

1. Access Minutes
2. Access Lines in Service
3. CCL Premium Earned Revenue
4. CCL Non-Premium Earned Revenue
5. CCL Earned Rev. Sp. Acc. Surch.
6. CCL Net Realized Uncollectibles
7. CCL Net Earned Revenue
8. EU Earned Revenue
9. EU Net Realized Uncollectibles
10. EU Net Earned Revenue
11. CL Other

----- TRAFFIC SENSITIVE -----

12. SW Access Minutes
13. SW Earned Revenue
14. SW Net Realized Uncollectibles
15. SW Net Earned Revenue
16. SP Earned Revenue
17. SP Net Realized Uncollectibles
18. SP Net Earned Revenue
19. TS Other

----- LIFELINE ASSISTANCE -----

20. Lifeline Connection
21. End User SLC Waiver

Data Comments:

PREPARED BY: _____ DATE: MM/DD/YY TEL: (____) ____-____
APPROVED BY: _____ DATE: MM/DD/YY TEL: (____) ____-____

PRINTED: MM/DD/YY, HH:MM AM ET CREATED: MM/DD/YY, HH:MM AM ET
Working Draft - May 2, 1995

CUSTOMER DIVIDEND INCENTIVE COMPANY
SETTLEMENT SUMMARYCOMPUTED: MMM,YYYY
APPLIES TO: MMM,YYYYREG: _____ SUBSET: _____
CC: _____
CO: _____
SA: _____
CSLT: _____

----- NET BALANCE SUMMARY -----

AMOUNT

1. EU NET BALANCE [32 - 19]
2. CCL NET BALANCE+SUPPORT [33+12+17-18]
3. TS NET BALANCE [50-(34 + 35)]
4. EU PRIOR PERIOD NET ADJ.
5. CCL PRIOR PERIOD NET ADJ.
6. CL SETTLEMENT RATE ADJUSTMENT
7. TS PRIOR PERIOD NET ADJ.
8. TS SETT RATE & RET. RATIO ADJ.
9. USF & LA PRIOR PERIOD NET ADJ.
10. **TOTAL NET BALANCE (1 THRU 9)**
If Positive, NECA Pays EC
If Negative, EC Pays NECA

----- SUPPORT DATA -----

12. LONG TERM SUPPORT
13. RESERVED
14. USF
15. LIFELINE CONNECTION [1070,20]
16. EU SLC WAIVER [1070,21]
17. **TOTAL USF + LA [14+15+16]**

----- COMMON LINE -----

18. CCL NET EARNED REVENUE [1070,7]
19. EU NET EARNED REVENUE [1070,10]+16*
(*NECA Tariff Participants Only)
20. CL OTHER [1070,11]
21. CL ACCESS MINUTES [1070,1]
22. CL SETTLEMENT RATE PER MOU
23. CL SCHEDULE [21 x 22]
24. CL BASIC SCHEDULE [20 + 23]
25. CL EXPENSE & TAXES FACTOR
26. CL INVESTMENT FACTOR
27. REALIZED RESIDUE RATIO
28. RETURN FACTOR [25 + (26 x 27)]
29. CL REALIZED SCHEDULE [24 x 28]
30. RESERVED
31. CL SETTLEMENT [29]
32. EU SETTLEMENT [19]
33. CCL SETTLEMENT [31 - 32]

CUSTOMER DIVIDEND INCENTIVE COMPANY
SETTLEMENT SUMMARYCOMPUTED: MMM,YYYY
APPLIES TO: MMM,YYYYREG: _____ SUBSET: _____
CC: _____
CO: _____
SA: _____
CSLT: _____

---- TRAFFIC SENSITIVE ----

34. SW NET EARNED REVENUE [1070, 15]
35. SP NET EARNED REVENUE [1070, 18]
36. RESERVED
37. TS OTHER [1070, 19]
38. TS SWITCHED ACCESS MINUTES [1070, 12]
39. TS SW SETTLEMENT RATE PER MOU
40. TS SWITCHED BASIC SCHEDULE [38 x 39]
41. TS SPECIAL RETENTION RATIO
42. RATE ADJUSTMENT FACTOR
43. TS SP BASIC SCHED [1070, 16 x (41/42)]
44. TOTAL TS BASIC SCHEDULE [37 + 40 + 43]
45. TS EXPENSE & TAXES FACTOR
46. TS INVESTMENT FACTOR
47. REALIZED RESIDUE RATIO
48. RETURN FACTOR [45 + (46 x 47)]
49. TS REALIZED BASIC SCHEDULE [44 x 48]
50. TS SETTLEMENT [49]

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INCENTIVE COMPANY INPUT FORM

SMALL COMPANY: COST OPTION

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DATA TYPE: _____
STATUS: _____

REG: _____ SUBSET: _____
CC: _____
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SA: _____
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---- COMMON LINE ----

AMOUNT

1. Access Minutes
2. Access Lines in Service
3. CCL Premium Earned Revenue
4. CCL Non-Premium Earned Revenue
5. CCL Earned Rev. Sp. Acc. Surch.
6. CCL Net Realized Uncollectibles
7. CCL Net Earned Revenue
8. EU Earned Revenue
9. EU Net Realized Uncollectibles
10. EU Net Earned Revenue
11. CL Other

---- TRAFFIC SENSITIVE ----

12. SW Access Minutes
13. SW Earned Revenue
14. SW Net Realized Uncollectibles
15. SW Net Earned Revenue
16. SP Earned Revenue
17. SP Net Realized Uncollectibles
18. SP Net Earned Revenue
19. TS Other

---- LIFELINE ASSISTANCE ----

20. Lifeline Connection
21. End User SLC Waiver

Data Comments:

PREPARED BY: _____ DATE: MM/DD/YY TEL: () - -
APPROVED BY: _____ DATE: MM/DD/YY TEL: () - -

INCENTIVE SMALL COMPANY: COST OPTION
SETTLEMENT SUMMARYCOMPUTED: MMM,YYYY
APPLIES TO: MMM,YYYYREG: _____ SUBSET: _____
CC: _____
CO: _____
SA: _____
CSLT: _____

---- NET BALANCE SUMMARY ----

AMOUNT

1. EU NET BALANCE [31 - 18]
2. CCL NET BALANCE+SUPPORT [32+11+16-17]
3. TS NET BALANCE [49-(33 + 34)]
4. EU PRIOR PERIOD NET ADJ.
5. CCL PRIOR PERIOD NET ADJ.
6. CL SETTLEMENT RATE ADJUSTMENT
7. TS PRIOR PERIOD NET ADJ.
8. TS SETT RATE & RET. RATIO ADJ.
9. USF & LA PRIOR PERIOD NET ADJ.
10. **TOTAL NET BALANCE (1 THRU 9)**
If Positive, NECA Pays EC
If Negative, EC Pays NECA

---- SUPPORT DATA ----

11. LONG TERM SUPPORT
12. RESERVED
13. USF
14. LIFELINE CONNECTION [1070,20]
15. EU SLC WAIVER [1070,21]
16. **TOTAL USF + LA** [13+14+15]

---- COMMON LINE ----

17. CCL NET EARNED REVENUE [1070,7]
18. EU NET EARNED REVENUE [1070,10]+15*
(*NECA Tariff Participants Only)
19. CL OTHER [1070,11]
20. CL ACCESS MINUTES [1070,1]
21. CL SETTLEMENT RATE PER MOU
22. CL SCHEDULE [20 x 21]
23. CL BASIC SCHEDULE [19 + 22]
24. CL EXPENSE & TAXES FACTOR
25. CL INVESTMENT FACTOR
26. REALIZED RESIDUE RATIO
27. RETURN FACTOR [24 + (25 x 26)]
28. CL REALIZED SCHEDULE [23 x 27]
29. RESERVED
30. CL SETTLEMENT [28]
31. EU SETTLEMENT [18]
32. CCL SETTLEMENT [30 - 31]

INCENTIVE SMALL COMPANY: COST OPTION
SETTLEMENT SUMMARYCOMPUTED: MMM, YYYY
APPLIES TO: MMM, YYYYREG: _____ SUBSET: _____
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SA: _____
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----- TRAFFIC SENSITIVE -----

33. SW NET EARNED REVENUE [1070, 15]
34. SP NET EARNED REVENUE [1070, 18]
35. RESERVED
36. TS OTHER [1070, 19]
37. TS SWITCHED ACCESS MINUTES [1070, 12]
38. TS SW SETTLEMENT RATE PER MOU
39. TS SWITCHED BASIC SCHEDULE [37 x 38]
40. TS SPECIAL RETENTION RATIO
41. RATE ADJUSTMENT FACTOR
42. TS SP BASIC SCHED [1070, 16 x (40/41)]
43. TOTAL TS BASIC SCHEDULE [36 + 39 + 42]
44. TS EXPENSE & TAXES FACTOR
45. TS INVESTMENT FACTOR
46. REALIZED RESIDUE RATIO
47. RETURN FACTOR [44 + (45 x 46)]
48. TS REALIZED BASIC SCHEDULE [43 x 47]
49. TS SETTLEMENT [48]

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INCENTIVE COMPANY INPUT FORM
SMALL COMPANY: AVERAGE SCHEDULE OPTIONENTERED: MMM,YYYY
APPLIES TO: MMM,YYYY
DATA TYPE: _____
STATUS: _____REG: _____ SUBSET: _____
CC: _____
CO: _____
SA: _____
CSLT: _____

---- COMMON LINE ----

AMOUNT

1. Total Access Minutes
2. Access Lines in Service
3. CCL Premium Earned Revenue
4. CCL Non-Premium Earned Revenue
5. CCL Earned Rev. Sp. Acc. Surch.
6. CCL Net Realized Uncollectibles
7. CCL Net Earned Revenue
8. EU Earned Revenue
9. EU Net Realized Uncollectibles
10. EU Net Earned Revenue
11. CL Incentive Other
12. CL Other

---- TRAFFIC SENSITIVE ----

13. SW Access Minutes
14. Circuit Miles
15. Reserved
16. ITD Circuits
17. SW Earned Revenue
18. SW Net Realized Uncollectibles
19. SW Net Earned Revenue
20. SP Earned Revenue
21. SP Net Realized Uncollectibles
22. SP Net Earned Revenue
23. Reserved
24. TS Incentive Other
25. Switched Circuit Terminations
26. TS Other

---- OTHER ----

27. Reserved
28. Other

---- LIFELINE ASSISTANCE ----

29. Lifeline Connection
30. End User SLC Waiver

Data Comments:

_____PREPARED BY: _____ DATE: MM/DD/YY TEL: (____) ____-____
APPROVED BY: _____ DATE: MM/DD/YY TEL: (____) ____-____PRINTED: MM/DD/YY, HH:MM AM ET CREATED: MM/DD/YY, HH:MM AM ET
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**INCENTIVE SMALL COMPANY: AVERAGE SCHEDULE OPTION
SETTLEMENT SUMMARY**

COMPUTED: MMM,YYYY
APPLIES TO: MMM,YYYY

REG: _____ SUBSET: _____
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----- NET BALANCE SUMMARY -----

1. EU NET BALANCE [31 - 18]
2. CCL NET BALANCE+SUPPORT [32+11+16-17]
3. TS NET BALANCE [49-(33 + 34)]

AMOUNT

4. EU PRIOR PERIOD NET ADJ.
5. CCL PRIOR PERIOD NET ADJ.
6. CL SETTLEMENT RATE ADJUSTMENT
7. TS PRIOR PERIOD NET ADJ.
8. TS SETTLEMENT RATE ADJUSTMENT
9. USF & LA PRIOR PERIOD NET ADJ.
10. **TOTAL NET BALANCE (1 THRU 9)**

If Positive, NECA Pays EC

If Negative, EC Pays NECA

----- SUPPORT DATA -----

11. LONG TERM SUPPORT
12. RESERVED
13. USF
14. LIFELINE CONNECTION [1080,29]
15. EU SLC WAIVER [1080,30]
16. **TOTAL USF + LA [13+14+15]**

----- COMMON LINE -----

17. CCL NET EARNED REVENUE [1080,7]
18. EU NET EARNED REVENUE [1080,10]+15*
(*NECA Tariff Participants Only)
19. CL INCENTIVE OTHER [1080,11]
20. **CL TOTAL ACCESS MINUTES [1080,1]**
21. **CL SETTLEMENT RATE PER MOU**
22. **CL SCHEDULE [20 x 21]**
23. CL BASIC SCHEDULE [19 + 22]
24. CL EXPENSE & TAXES FACTOR
25. CL INVESTMENT FACTOR
26. REALIZED RESIDUE RATIO
27. RETURN FACTOR [24 + (25 x 26)]
28. CL REALIZED SCHEDULE [23 x 27]
29. RESERVED
30. CL SETTLEMENT [28]
31. EU SETTLEMENT [18]
32. CCL SETTLEMENT [30 - 31]

7/95

INCENTIVE SMALL COMPANY: AVERAGE SCHEDULE OPTION
SETTLEMENT SUMMARY

COMPUTED: MMM, YYYY
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REG: _____ SUBSET: _____
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SA: _____
CSLT: _____

----- TRAFFIC SENSITIVE -----

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33. SW NET EARNED REVENUE [1080, 19]
34. SP NET EARNED REVENUE [1080, 22]
35. RESERVED
36. TS INCENTIVE OTHER [1080, 24]
37. TS SWITCHED ACCESS MINUTES [1080, 13]
38. TS SW SETTLEMENT RATE PER MOU
39. TS SWITCHED BASIC SCHEDULE [37 x 38]
40. TS SPECIAL RETENTION RATIO
41. RATE ADJUSTMENT FACTOR
42. TS SP BASIC SCHED [1080, 20 X 40/41]]
43. TOTAL TS BASIC SCHEDULE [36 + 39 + 42]
44. TS EXPENSE & TAXES FACTOR
45. TS INVESTMENT FACTOR
46. REALIZED RESIDUE RATIO
47. RETURN FACTOR [44 + (45 x 46)]
48. TS REALIZED BASIC SCHEDULE [43 x 47]
49. TS SETTLEMENT [48]

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CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 1

SETTLEMENT RATE DEVELOPMENT

Traffic Sensitive Switched (TSSW) Access: **95/96 Test Period (TP)**

April '95 Annual Filing

For Each Customer Dividend Incentive Study Area, the Initial Switched Settlement Rate per MOU¹ (DSI1) =

$$\frac{[1994 \text{ Base Year RRQ @ } 11.25\% \text{ (As of 2/95)} + \{(7/95 \rightarrow 6/97 \text{ Exogenous Changes})\}]}{[1994 \text{ Access Minutes}]}$$

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[1994 Access Minutes]

96/97 Test Period (TP)

April '96 Annual Filing

For Each Customer Dividend Incentive Study Area, the second Initial Switched Settlement Rate per MOU² (DSI2) =

$$\frac{[1994 \text{ Base Year RRQ @ } 11.25\% \text{ (As of 2/96)} + \{(7/95 \rightarrow 6/97 \text{ Exogenous Changes})\}]}{[1994 \text{ Access Minutes}]}$$

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[1994 Access Minutes]

¹ Customer Dividend rates are displayed before the application of the Customer Dividend adjustment. The rate for the first year of each two year period will be reduced by 0.65 %. and the rate will be further reduced by another 0.65% during the second year.

² A settlement rate (DSI3) must also be calculated as of February 1997, using the same formula. This will be the final true-up. It is used in developing the final trued-up settlements, and for projecting the test period revenue requirement needed for tariff rate development. True-ups must be calculated for this settlement rate and all settlement rates on the following pages until the two-year window for making changes is closed. For the initial two-year period for cost companies, there will be two preliminary rate calculations and then a final calculation. For average schedule incentive LECs and for all incentive LECs not in the initial two year period, there will be three preliminary rate calculations and then a final rate calculation.

CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 2

SETTLEMENT RATE DEVELOPMENT

Traffic Sensitive Switched (TSSW) Access: **97/98 Test Period (TP)**
April '97 Annual Filing
For Each Customer Dividend Incentive Study Area

First Switched Settlement Rate per MOU (DSA1) =

As of February '97:

$$\begin{aligned} & [\frac{1}{2} \times 1995 \text{ RRQ @ } 11.25\% + 1996 \text{ RRQ @ } 11.25\% + \\ & \quad \frac{1}{2} \times 1997 \text{ RRQ @ } 11.25\% + \\ & \quad \{(7/97 \rightarrow 6/99 \text{ Exogenous Changes})\}] \end{aligned}$$

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[7/95 through 6/97 Access Minutes]

Traffic Sensitive Switched (TSSW) Access: **98/99 Test Period (TP)**
April '98 Annual Filing
For Each Customer Dividend Incentive Study Area

Second Switched Settlement Rate per MOU (DSA2) =

As of February '98:

$$\begin{aligned} & [\frac{1}{2} \times 1995 \text{ RRQ @ } 11.25\% + 1996 \text{ RRQ @ } 11.25\% + \\ & \quad \frac{1}{2} \times 1997 \text{ RRQ @ } 11.25\% + \\ & \quad \{(7/97 \rightarrow 6/99 \text{ Exogenous Changes})\}] \end{aligned}$$

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[7/95 through 6/97 Access Minutes]

CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 3

SETTLEMENT RATE DEVELOPMENT

Traffic Sensitive Special Access:

95/96 Test Period (TP)

April '95 Annual Filing

For Each Customer Dividend Incentive Study Area

Initial Unadjusted Retention Ratio³ (DXI1) =

$$\frac{[1994 \text{ Base Year RRQ @ } 11.25\% \text{ (As of 2/95)} + \{(7/95 \rightarrow 6/97 \text{ Exogenous Changes})\}]{(1/94 \text{ through } 6/94 \text{ Revenue}) \times (7/94 \text{ RAF}) + (7/94 \text{ through } 12/94 \text{ Revenue})}$$

Initial Retention Ratio (DPI1) used for monthly settlements =

$$\text{DPI1} = \text{DXI1} \div (7/95 \text{ RAF})$$

7/95 Rate Adjustment Factor (RAF) =

$$\frac{\{(\text{Pool Revenue @ } 7/95 \text{ Proposed Rates}) \times 95/96 \text{ TP Demand}\}}{\{(\text{Pool Revenue @ } 12/94 \text{ Rates}) \times 95/96 \text{ TP Demand}\}}$$

³ This simplified equation assumes no rate changes outside of the normal annual changes that occur each year on July 1.

CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 4

SETTLEMENT RATE DEVELOPMENT

Settlements by Retention Ratio - Example

The following example demonstrates that the revenue requirement recovery for an incentive EC is unaffected by tariff rate changes.

Assume Customer Dividend EC has the following characteristics for the 1994 Base Year:

Item	Amount
Annual Cost Study Revenue Requirement (RRQ)	\$12,000.
Monthly Demand	10.
Monthly Rate = $RRQ/Demand/12$	\$100.

If the demand units are the same during the two year incentive period, the Company should receive \$12,000 during the first year reduced by 0.65%, or \$11,922. During the second year that amount will be reduced by another 0.65% and the company should receive \$11,845.

Assume following Tariff Rate History:

Effective Period of Rates	Monthly Rate	RAF from previous filing
7/93 - 6/94	\$80.00	n/a
7/94 - 6/95	\$88.00	1.10
7/95 - 6/96	\$110.00	1.25
7/96 - 6/97	\$96.80	0.88

DXI1 = Base Year Revenue Requirement / Base Year Revenue (adjusted to current rates).

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CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 5

SETTLEMENT RATE DEVELOPMENT

Settlements by Retention Ratio - Example (cont.)

$$\text{DPI1} = \$12,000 / [(6 \text{ months} \times 10 \text{ units} \times \$80 \times 1.10 \text{ RAF}) + (6 \text{ months} \times 10 \text{ units} \times \$88)] = 12,000 / 10,560 = 1.136364$$

$$\text{DPI1} = \text{DXI1} \div 7/95 \text{ RAF} = 1.136364 \div 1.25 = 0.909091$$

Assume DXI2 = DXI1 (i.e., the latest settlements available 2/96 are the same as those that were available 2/95 for the 1994 Base Year), then:

$$\text{DPI2} = \text{DXI2} \div (7/95 \text{ RAF}) \div (\text{Proposed } 7/96 \text{ RAF}) = 1.136364 \div 1.25 \div 0.88 = 1.033058$$

Revenue Verification

Period	Tariff Rate	Units	Tariff Revenue	RR	CD Adj. (1-.0065) ^y	Retained Revenue
7/95 to 6/96; y=1	\$110.00	10	\$13,200.	0.909091	.993500	\$11,922
7/96 to 6/97; y=2	\$96.80	10	\$11,616.	1.033058	.987042	\$11,845

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CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 6

SETTLEMENT RATE DEVELOPMENT

Traffic Sensitive Special Access:

96/97 Test Period (TP)

April '96 Annual Filing

For Each Customer Dividend Incentive Study Area

Unadjusted Second Retention Ratio (**DXI2**) =

[1994 Base Year RRQ @ 11.25% (As of 2/96) +

{(7/95 → 6/97 Exogenous Changes)}]

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[(1/94 through 6/94 Revenue) X (7/94 RAF) +

(7/94 through 12/94 Revenue)]

Second Retention Ratio (**DPI2**) used for monthly settlements =

DPI2 = DXI2 ÷ (7/96 RAF)

÷ (7/95 RAF) ÷ (Other RAF⁴s)

⁴ Other RAFs are for midcourse correction filings (if any).

CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 7

SETTLEMENT RATE DEVELOPMENT

Traffic Sensitive Special Access:

97/98 Test Period (TP)

April '97 Annual Filing

For Each Customer Dividend Incentive Study Area

First Unadjusted Retention Ratio (**DXA1**) =

As of February '97:

$$\begin{aligned} & [\frac{1}{2} \times 1995 \text{ RRQ @ } 11.25\% + 1996 \text{ RRQ @ } 11.25\% + \\ & \quad \frac{1}{2} \times 1997 \text{ RRQ @ } 11.25\% + \\ & \quad \{(7/97 \rightarrow 6/99 \text{ Exogenous Changes})\}] \end{aligned}$$

\div

$$\begin{aligned} & [(7/95 \text{ through } 6/96 \text{ Revenue}) \times (7/96 \text{ RAF}) + \\ & \quad (7/96 \text{ through } 1/97 \text{ Revenue}) + \\ & \quad (2/97 + 6/97 \text{ Forecasted Revenue})] \end{aligned}$$

First Adjusted Retention Ratio (**DPA1**) for monthly settlements =

$$\text{DPA1} = \text{DXA1} \div (7/97 \text{ RAF})$$

CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 8

SETTLEMENT RATE DEVELOPMENT

Traffic Sensitive Special Access:

98/99 Test Period (TP)

April '98 Annual Filing

For Each Customer Dividend Incentive Study Area

Second Unadjusted Retention Ratio (**DXA2**) =

As of February '98:

$$\begin{aligned} & [\frac{1}{2} \times 1995 \text{ RRQ @ } 11.25\% + 1996 \text{ RRQ @ } 11.25\% + \\ & \quad \frac{1}{2} \times 1997 \text{ RRQ @ } 11.25\% + \\ & \quad \{(7/97 \rightarrow 6/99 \text{ Exogenous Changes})\}] \end{aligned}$$

\div

$$\begin{aligned} & [(7/95 \text{ through } 6/96 \text{ Revenue}) \times (7/96 \text{ RAF}) + \\ & \quad (7/96 \text{ through } 6/97 \text{ Revenue})] \end{aligned}$$

Second Retention Ratio (**DPA2**) used for monthly settlements =

$$\begin{aligned} & \text{DPA2} = \text{DXA2} \div (7/98 \text{ RAF}) \\ & \div (7/97 \text{ RAF}) \div (\text{Other RAFs}) \end{aligned}$$

CUSTOMER DIVIDEND INCENTIVE COMPANY

Rates 9

SETTLEMENT RATE DEVELOPMENT

Common Line (CL) Access:

95/96 Test Period (TP)

April '95 Annual Filing

For Each Customer Dividend Incentive Study Area

Initial Common Line Settlement Rate per MOU (DCI1) =

**[1994 Base Year CL RRQ @ 11.25% (As of 2/95) +
{(7/95 → 6/97 Exogenous Changes)} -
(1994 End User Revenue)]**

÷

**[1994 CL Access Minutes X
(1994 Access Minutes/1993 Access Minutes)]**

96/97 Test Period (TP)

April '96 Annual Filing

For Each Customer Dividend Incentive Study Area

Second Initial Common Line Settlement Rate per MOU (DCI2) =

**[1994 Base Year CL RRQ @ 11.25% (As of 2/96) +
{(7/95 → 6/97 Exogenous Changes)} -
(1994 End User Revenue)]**

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**[1994 CL Access Minutes X
(1994 Access Minutes/1993 Access Minutes)]**